

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 2279 – HB 2651

January 19, 2012

**SUMMARY OF BILL:** Deletes obsolete language concerning the percentage of lottery proceeds that the Tennessee Education Lottery Corporation (TELC) must return to the state in the form of net lottery proceeds for the first two full years and the first partial year of operation. Requires the TELC to provide the State Funding Board, as part of the currently-required statement of reasons supporting a percentage return to the state less than 35 percent of lottery proceeds for the purpose of maximizing net lottery proceeds, a projection of the estimated amount of net lottery proceeds. Requires the State Funding Board to approve the TELC estimate of maximized net lottery proceeds prior to adopting any return percentage to the state below 35 percent.

**ESTIMATED FISCAL IMPACT:**

**Other Fiscal Impact – To the extent the State Funding Board approves a percentage return to the state less than 35 percent, any change to net lottery proceeds is estimated to be not significant. If the State Funding Board required the Tennessee Education Lottery Corporation to return at least 35 percent of lottery proceeds to the state, a significant unknown decrease in net lottery proceeds is likely to occur.**

Assumptions:

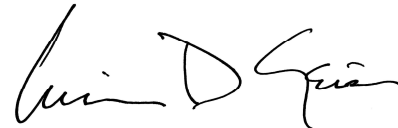
- The percentages of lottery proceeds returned to the state over the last three years have been 26.0 percent in FY08-09, 25.9 percent in FY09-10, and 25.5 percent in FY10-11.
- The TELC provided the State Funding Board statements supporting a percentage return to the state less than 35 percent for each of the last three years.
- To the extent the State Funding Board adopts the estimates for maximized net lottery proceeds provided by the TELC and approves a percentage return less than 35 percent to the state, any change to net lottery proceeds is estimated to be not significant.
- To the extent the State Funding Board does not approve the estimates for maximized net lottery proceeds or the proposed percentage return to the state less than 35 percent, and requires the TELC to return at least 35 percent of all lottery proceeds to the state, a significant unknown decrease in net lottery proceeds would be anticipated. This decrease would likely occur because the TELC would have to reduce prize expense substantially to meet the 35 percent return threshold. A substantial reduction to prize

expense would have to occur because all other TELC expense categories are either statutory requirements, contractual obligations, or they are not significant enough that a sizable reduction would allow for a 35 percent return to the state. Because lottery players play for the chance to win, reducing prize expense is likely to reduce net ticket sales by an amount much greater than any reduction to prize expense; thereby reducing net lottery proceeds by a significant unknown amount. A hypothetical example is provided in the next assumption.

- In FY10-11, the actual ratio of net ticket sales to prize expense was 1.592 (\$1,106,678,193 net ticket sales / \$695,149,156 prize expense). In other words, for every dollar of prize expense incurred in FY10-11, approximately \$1.59 in net ticket sales was generated. If the TELC reduced prize expense by \$1,000,000 in an attempt to return 35 percent of lottery proceeds to the state, net ticket sales could decrease by as much as \$1,590,000 (\$1,000,000 x \$1.59). Under this hypothetical example, a decrease in net lottery proceeds of \$590,000 would occur (\$1,590,000 reduction in net ticket sales - \$1,000,000 reduction in prize expense). This hypothetical example is provided for explanation only; any actual decrease in net lottery proceeds would be dependent upon the behavioral response to any change in prize expense. As a result, this fiscal impact cannot be quantified with reasonable certainty.

## **CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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